

General Commentary

Sentiment across markets ping ponged back and forth this week amidst conflicting signals from economic data as well as corporate earnings reports and AI innovations. On Monday, equities surged and treasuries sold off 4-5bps after manufacturing activity in January expanded by the most since 2022. Despite the ISM Services report also coming in strong with a pickup in business activity, the overall mood began to sour as investors questioned corporate capex spending plans and concerns grew that advancements in AI technology may completely upend many industries. The risk-off environment peaked on Thursday alongside much weaker labor market data. Initial Jobless Claims last week jumped by 22k, far more than any economist predicted, while the JOLTS report showed a large unexpected drop in Job Openings. A separate reading of announced job cuts showed corporations planned the highest layoffs of any January since the 2009 Great Financial Crisis. Treasuries benefitted from the flight to safety, with yields rallying 8-11bps on the day. By Friday, dip buyers came back in full force, equities jumped and rates reversed course. When all was said and done, treasury yields ended the week just 2-4bps lower.

IG Munis

The muni market extended its strong start to the year, picking up right where January left off. The benchmark AAA MMD curve continued to steepen, with the front end lower by as much as 7bps while the 30y was unchanged. According to JPM research, BWICs rose 17% vs the rolling 5-week average, while customer purchases jumped 32%. Most of the front-end demand came from SMA and retail accounts flush with Feb 1st reinvestment cash, despite ratios in the high 50s to low 60s percentile. Mutual funds are also supporting the market, albeit with a more measured approach. With next week's \$14bn calendar mostly comprising high grades, funds have been patient to wait for better entry points and are reluctant to push the market further given how tight valuations are. However, cash piles are swelling. Lipper reported the second consecutive week of \$2bn+ of inflows, the first occurrence since February 2009, with IG funds taking in \$1.817bn of the total. This week's new issues did very well, with the largest subscriptions coming in the 15-20y part of the curve, but term bonds also saw robust interest. A \$533mm Chicago Transit Authority deal saw over \$5bn in orders. With this level of interest on new issues, we expect the market will have no problem digesting the upcoming calendar, though investor preference clearly sits with spreadier high grades, typically +25 or wider. The AA+ and AAA names that trade close to the MMD scale will still likely need some concessions to spark heavy order flow.

HY Munis

As we have discussed for several weeks now, the building cash cushions stemming from a renewed inflow cycle amidst wider spreads would cause risk appetite to re-emerge. This week saw the largest HY deal of the year successfully price, a \$632mm nonrated luxury senior living community in NY. At just 260 units, this is the highest leverage per unit of any senior living deal we have tracked and sends a strong signal to underwriters that markets are officially back open for business. Away from the primary market, secondary trades were mostly flat week over week with some weakness seen during Friday's rate reversal. Cofina 58s went away at a 5.17% on Friday vs 5.14% last week while PRASA bonds traded Thursday at unchanged levels. Less common names like the James Senior Living also changed hands on Thursday the same as the week prior. Overall, we expect spreads will grind tighter, especially for different names that have a solid credit trajectory. Evals may be slow to catch up given the limited number of sellers and therefore trades, but a BBB- NYC charter school that traded Thursday at +85 vs its +99 eval is an example of what may be needed in order for accounts to pull out their favored credits.

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Market Commentary

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